

# ICPS newsletter®

## NGOs will monitor security in the Black Sea-Caspian Region

***An international consortium of non-government organizations will begin to operate in Black Sea–Caspian Region countries with the purpose of setting up an effective system for public participation in regional security and defense. The establishment of this consortium was announced in Kyiv on 27 November 2004***

NGOs and independent think-tanks from Armenia, Azerbaijan, Bulgaria, Georgia, Moldova, Romania, Turkey, and Ukraine announced the establishment of the Black Sea–Caspian Democratic Control Consortium. This international consortium of NGOs has been organized because of the desire of its participants to establish an effective system for public participation in government decision-making on internal and external security issues affecting their countries at the Black Sea–Caspian regional level. The constituent assembly of the new organization took place in the ICPS conference hall on 27 November 2004.

"Today, the Black Sea–Caspian Region is viewed as a very important area on the geopolitical map of the world because of its huge natural resources and strategic transit corridors... At the same time, the current socio-political situation in a number of post-communist countries in this region is largely marked by underdeveloped civil institutions and the nearly total lack of opportunities for the public to affect their governments and government decisions," reads the statement issued by the assembly.

The newly established consortium identified its key priorities as:

- consolidating existing non-government think-tanks and providing methodological support for establishing new such think-tanks for the purpose of exercising democratic control and forming a coordinating structure for this control in the Black Sea–Caspian Region;
- acclimatizing public opinion to the notion that it is necessary, desirable and appropriate to establish democratic

control over foreign and domestic policies;

- setting up a system for monitoring the level of democratic control in the region and the state of national and regional security.

The consortium will act through regular conferences and working seminars, setting up democratic control Civilian Councils under the legislatures of the various Black Sea–Caspian Region countries, preparing alternative projects and programs for democratic control, and promoting concepts and principles of democratic control as a cornerstone of democratic transformations.

ICPS Director Vira Naniivska thinks that basic changes are needed in the level of openness of defense programs in post-totalitarian countries. "What has not been even properly talked about, has not been even named, I believe, is eliminating the KGB mentality from the security system, security work and security thinking—and, of course, civil control over security and defense programs. So it is very, very important to think and to prepare an intellectual basis and clear ideas, clear understanding of what is there, what needs to be changed—institutions and legislation—and how we can make this start to happen in a different way."

Ukraine will be represented in the consortium by the Center for International Security and Strategic Studies, which has been carrying out research and programs on international and national security, policy analysis and strategic studies in Ukraine since 1999. More information (in Ukrainian) is available on the internet at: <http://www.kgi.edu.ua/cisss-ua/>. ■

### ***ICPS revises economic forecast due to political events in Ukraine***

Developments in Ukraine are evolving according to the risky scenario, a political crisis, and have forced economists at the International Centre for Policy Studies to revise their forecast for the country's economic development in 2004–2006. The nationwide political strike, calls for separatism that are impacting negatively on domestic production chains and the State Budget, and the inadequate functioning of government bodies are likely to cause a sharp decline in economic growth.

Based on this, ICPS has withdrawn its last published forecast (September 2004), which predicted that Ukraine's economy should grow 13.5% in 2004. The Centre's economists hope for a quick settlement of the political crisis and the election of a new president, which should stabilize the economic situation and allow them to formulate the basic assumptions underlying their forecasts.

Nevertheless, ICPS considers statements about economic recession premature. According to the Centre's data, most enterprises are continuing to work in normal mode, and no sharp decline in export-import operations has been registered yet. A noticeable decline in Budget revenues, slipping confidence in domestic banks, and growing demand for forex cash are causing the most serious concern at this time. The Centre's experts note that a short-term political crisis is unlikely to bring any radical changes to the positive economic trends Ukraine has been registering for five consecutive years.

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# Improving the business environment: the Central European experience

*The International Centre for Policy Studies continues to familiarize readers of its weekly Newsletter with the recommendations provided by experts from the Visegrad Group regarding key economic reforms in Central Europe. Jan Mladek, member of the Czech Parliament, proposes creating an environment to encourage enterprises with foreign investment (EFIs) oriented on foreign markets, and to support such investment by providing the necessary business infrastructure, the option to buy land for new construction, and a favorable regulatory environment*

The aim of business reforms is to improve the productivity of a given country and to increase GDP growth. The economic freedoms that were instituted after the fall of communism allowed the development of SMEs. But during the last 15 years of economic transformation, many processes have proved more complex than people originally imagined.

SMEs are of critical importance in two areas: employment and political stability. SMEs, especially those in services and manufacturing, are helpful in absorbing surplus labor from the gradually shrinking state sector. SMEs are also one of the pillars of stability and democracy.

## Foreign investment have proved effective

A 1999 study of the Czech Republic showed that EFI clearly outperformed companies privatized to local entrepreneurs through vouchers or those who remained state-owned. Despite all efforts to improve management and corporate governance at privatized or state-owned enterprises, success stories were quite rare. It seemed that the best results were reached by encouraging EFIs and SMEs. Still, a number of questions merit raising:

- To whom should the new companies provide goods and services?
- Where they should produce these goods and services?
- How they should produce their goods and services?

## For whom? Foreign markets

Even an excellent business environment is worthless if there is no market for products or services. It means that those EFIs serving foreign markets are ideal. EFIs who serve domestic markets usually improve quality of products and productivity, but they also compete directly with domestic businesses. The

battle for markets is even more cutthroat for SMEs. Success stories showing rapid SME development are associated with those regions where consumers are foreign tourists or foreign residents. Those are regional capitals and border areas with easy access to wealthier countries. To attract wealthier consumers, it is necessary to create for them a visa regime that is as easy as possible (preferably no visa requirement), easy access by all forms of transport, a large number of border crossings (the Czech-German border has a crossing point every 15 km), and last but not least, a well-developed infrastructure of hotels, B&B's and other lodgings.

## Where? At newly-established companies

Foreign companies generally prefer greenfield investment (building entirely new factories on open land), because they are afraid of the problems connected with taking over existing assets—mainly hidden liabilities. These liabilities can vary, but ecological ones are a major nightmare in brownfield investment. Given the severe global competition for investment capital, it is necessary to offer foreign investors the opportunity to buy land to build plants and other facilities on. Long-term leases of 50–99 years can substitute for land ownership, but they are clearly a second choice.

For SMEs, the question of where to manufacture is even more acute. Here, the experience of Central Europe shows that the most efficient way to obtain assets was through restitution or, even better, through reprivatization in kind. Original owners or their heirs have had restaurants, hotels, service facilities, production sites and so on returned to them. Small privatization contributed as well, in terms of releasing smaller assets for acquisition. The other source of such facilities were bankruptcies and liquidations of large companies.

## How? With government support

There are two areas where the government can act directly: telecommunication and banking. Phone connections, faxes and internet are the minimum services needed to do business. This can be achieved by allowing a strategic investor to privatize the telecoms system and/or developing competition in this area. The banking sector is a more difficult issue. All banks in the country need to be run according to international standards and competition needs to be encouraged to improve the time needed to wire money and to set up an account.

Licensing businesses also has no easy solution. Some activities must be licensed, but too much licensing undermines commercial activity. A partial solution is establishing classes of licensing. Some trade should be free, some licensed moderately, and some licensed heavily. The aim is to have as much as possible free trade, so how to classify different business activities is a matter for political debate.

In general, a country should provide land for a reasonable price, along with the necessary infrastructure, a qualified labor force and some tax breaks to EFIs. The last item is somewhat debatable, because it creates unequal conditions between EFIs or large investors and the rest of the economy, as is the case in the Czech Republic. An alternative option is to create a flat tax, effectively cutting the tax burden for all companies. The cost of this approach is an increase in indirect taxes (VAT, excise, and so on). The overall tax burden is rather low in Central Europe. The issue under debate is distributing taxes between direct taxes (including health and social deductions and payroll tax) and indirect taxes.

Specific problems that can arise are misusing social benefits and health insurance. There were companies whose only business was to suck sick pay from the system. In 2004, Slovakia took drastic measures to minimize such benefits and to increase incentives to work. Sick pay was reduced and mandatory public works (8 hours per week) were established for unemployed people who did not want to be cut off of the scheme. ■

*Abridged from the original by Jan Mladek, MP, Czech Republic. For the full text, visit us at: <http://www.icps.kiev.ua/eng/library.html?1>.*

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